

# PHILIPPINES ECONOMIC WRAP-UP

MAY 13 - MAY 19, 2000

-----  
Summary  
-----

A 50 basis point hike in overnight lending rates was targeted at halting the slide in the peso's value. The Senate has abandoned debate on a tax amnesty which many said would fail to increase revenues. Government revenues have not kept pace with targets, but the deficit picture remains manageable. The privatization of PNB was pushed back to give bidders more time for due diligence. And the Philippine trade surplus jumped 36% year-on-year in the first quarter.

These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). We have just released a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

-----  
Contents  
-----

## MARKET AND POLICY DEVELOPMENTS

- Forex Report
- Credit Market Report
- Stock Market Report
- Philippine Economic Outlook
- Senate Ends Debate On Tax Amnesty
- Gov't Misses Key Revenue Targets
- PNB Privatization Date Pushed Back
- First Quarter Trade Surplus Up 36% Year-On-Year

-----  
Market and Policy Developments  
-----

FOREX REPORT  
-----

Jitters about political unrest and security problems continued to drive the value of the peso down this week. The closing value of the Philippine currency fell for the previous eight trading sessions before a slight rebound on May 19. A hike in interest rates (see below) may have triggered the rebound; traders and press reports suggest the Bangko Sentral ng Pilipinas (BSP, the central bank) has ceased intervening in the market to support the currency. The peso ended the week at P41.67/US\$, down from its May 12 close of P41.50/US\$.

-----  
Exchange Rate Tables  
-----

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
APR 10	41.115	41.105	132.5
11	41.104	41.117	139.0
12	41.157	41.180	187.0
13	41.166	41.155	140.3
14	41.157	41.170	49.0
APR 17	41.228	41.190	132.0
18	41.189	41.180	84.9
19	41.218	41.230	117.9
20	Markets Closed		
21	Markets Closed		
APR 24	41.258	41.275	74.5
25	41.342	41.355	129.2
26	41.378	41.310	143.7
27	41.278	41.300	123.8
28	41.279	41.280	136.9
MAY 01	Markets Closed		
02	41.275	41.279	127.9
03	41.269	41.270	84.4
04	41.265	41.280	65.5
05	41.279	41.280	112.6
MAY 08	41.274	41.280	45.0
09	41.279	41.279	57.5

10	41.353	41.370	113.5
11	41.398	41.430	93.5
12	41.474	41.500	119.5
-----			
MAY 15	41.589	41.560	135.5
16	41.613	41.630	86.6
17	41.662	41.665	145.5
18	41.727	41.730	183.0
19	41.682	41.670	103.9

-----  
Source: Bankers Association of the Philippines

#### CREDIT MARKET REPORT

-----  
At the regular May 15 Treasury bill auction, the Treasury Bureau bucked efforts by local banks to jack up local interest rates and only accepted P3.23 billion of bids from the P9.5 billion offer by banks for the government paper. The 91 day T-bill sank 5.6 basis points to 8.69% (on a full P1 billion award). Rates for longer term bills rose slightly on partial awards. The interest rate for 182-day bills rose 7.5 basis points to 9.900%, and the 364-day bill rate rose 16.3 basis points to 10.963%.

#### ----- Domestic Interest Rates (in percent)

##### Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
APR 10	8.760	9.376	10.391
APR 17	8.744	9.535	10.510
APR 24	8.689	9.555	10.634
MAY 02	8.700	9.736	10.764
MAY 08	8.746	9.825	10.800
MAY 15	8.690	9.900	10.963

Source: Bureau of the Treasury

#### Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----

APR 13	11.1366	9.50 - 13.375
APR 18	11.1330	9.50 - 13.375
APR 27	11.2353	9.50 - 13.375
MAY 03	10.9953	9.50 - 13.375
MAY 09	11.0068	9.50 - 13.375
MAY 18	11.0078	9.50 - 13.375

Sources: Bangko Sentral ng Pilipinas; Press reports

The results of the May 16 T-bond auction were similar. On a partial award of P1.25 billion (of P3.0 billion in planned borrowing), the rate for 7-year treasury bonds rose 50 basis points to 13.875% (from the previous auction of 7-year bonds on April 25).

In response to a weakening peso and the U.S. Federal Reserve Banks action to raise overnight rates, the policy-making Monetary Board of the BSP on May 17 approved a 50 basis point increase in the BSP's overnight rates. The move, which paralleled the U.S. hike, raises the overnight borrowing and lending rates to 9.5% and 11.75% respectively. A BSP statement said "This reflects a forward-looking monetary policy response to the possible future rise in inflation due to demand side pressures with the projected growth in the economy, and the continued depreciation of the peso." Press reports suggest the Monetary Board is actively considering a further 50 basis point increase in the overnight rates to prop up a weakening peso.

#### STOCK MARKET REPORT

-----

The Philippine Stock Market experienced a brief rally on May 17 as traders looked for an end to U.S. interest rate hikes. But the optimism was short lived and could not outweigh broad negative sentiment related to both international financial markets and local security concerns. The 33-share Philippine Stock Index (PHISIX) sank 3.94% through the week to end at 1478.68; the May 12 close was 1539.31. This is the first time the PHISIX has closed below 1500 since October 21, 1998.

-----

Philippine Stock Exchange Index (PHISIX) and

Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
----	-----	-----
APR 10	1796.66	1425
11	1757.45	1241
12	1744.57	974
13	1725.98	1107
14	1712.54	1293
APR 17	1637.54	1441
18	1648.13	1435
19	1664.00	3629
20	Markets Closed	
21	Markets Closed	
APR 24	1664.46	482
25	1647.56	945
26	1639.83	913
27	1620.53	950
28	1598.73	1046
MAY 01	Markets Closed	
02	1606.04	979
03	1592.68	692
04	1553.34	922
05	1551.90	914
MAY 08	1518.61	828
09	1523.43	818
10	1522.96	4599 a/
11	1505.21	778
12	1539.31	1064
MAY 15	1517.09	1401
16	1507.98	1023
17	1534.05	1328
18	1521.36	539
19	1478.68	1162

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.

Source: Philippine Stock Exchange

#### PHILIPPINE ECONOMIC OUTLOOK

-----

On May 18 the Embassy released the May Edition of its tri-annual "Philippine Economic Outlook," a broad overview of the current state of, and future prospects for, the Philippine Economy. Highlights of the report include a revised forecast for 2000 economic growth which we now predict will reach the range of 3.8-4.4% (for GDP). (Our January report had included an estimate of 3.5-4.0%.) Reasons for optimism include a revival in manufacturing and signs of increasing consumer demand. However, enthusiasm is tempered by a broad lack of consumer and business confidence. We also note that the government needs to continue and expand its efforts and economic reform and improved governance. The full text of the report is available on the Embassy website at <http://usembassy.state.gov/manila>.

#### SENATE ENDS DEBATE ON TAX AMNESTY

-----

Senate Ways and Means Committee Chairman Juan Ponce Enrile has welcomed the decision by Senate leaders to re-classify a bill proposing a tax amnesty as "non-priority." Many senators had questioned the propriety of the measure, given the country's fiscal pressures and the relative failure of similar efforts in the past to generate significant revenues. Senators also claim the bill discriminates against those who regularly comply with tax laws. The bill, which was in a period of interpellations, remains "active" and could be revived later in the legislative year. The IMF had earlier objected to the proposed amnesty saying it was an ineffective way to encourage greater tax compliance.

#### GOV'T MISSES KEY REVENUE TARGETS

-----

After surpassing targets for the first three months, the Bureau of Internal Revenue (BIR) fell some 10% below its April revenue collection targets. For the first four months of 2000 overall, the government's total revenue

intake was projected at P175.5 billion, but actual revenues fell slightly short of that at only P172.6 billion. The Bureau of Customs had surpassed its April target of P7.2 billion, collecting P7.68 billion.

BIR Commissioner Dakila Fonacier, addressing a local business group on May 16, said that the target for April collections was unrealistically high. He said it was based on two "one-off" events that occurred in 1999; specifically a program that granted amnesty from audit to taxpayers paying 20% higher income taxes in 1999 than in 1998; and a one-time collection from the BSP of a P3 billion tax liability. Fonacier also lamented the poor budget given the BIR, and said he had been successful in getting a larger budget for next year to enable the agency to expand its computerization efforts and enforcement efforts.

A key revenue goal for the government is P22 billion in privatization receipts. However, only P1 billion had been raised as of the end of April (against a target of nearly P4.6 billion). The government had intended, among other things, to sell its stake in local power utility Meralco, but the 10% stake was withdrawn from the market due to a "lukewarm reception." Other privatizations include the government's shares in Philippine National Bank (see below), Philippine National Oil Company - Energy Development Council (PNOC-EDC) and two local broadcasting firms.

Expenditures are also below targets, keeping the government's deficit within reason. Actual expenditures of P185.9 billion are 5.6% below 4-month targets of P196.9 billion.

#### PNB PRIVATIZATION DATE PUSHED BACK

-----

President Estrada was involved in discussions to convince local tycoon Lucio Tan to delay to June 9 the sale of an 80% block of Philippine National Bank (PNB). The sale combines the 46% stake held by Tan, a 30.39% stake held by the Philippine government, and a 3.5% stake held by the PNB Retirement Fund. The original schedule for the sale called for bids to be opened on May 26, but the Department of Finance had, at the request of potential

bidders who wanted more time to complete due diligence, sought to delay the bidding to June 15. Government officials involved in the talks said that Tan wanted the sale completed as soon as possible, saying that he was losing P25 million a day. (One source noted that Mr. Tan was exaggerating somewhat.) Tan also sought, and received, assurances that government deposits in PNB will remain there for 3 years after the sale is completed. The government is under strong pressure from the IMF and the World Bank to complete the sale in a transparent manner as soon as possible. So far three groups have qualified to bid on the bank; local Rizal Commercial Banking Corporation, a consortium led by TLC Beatrice Foods of the U.S., and a group headed by Indonesian mining firm Lebung Tandai Incorporated.

#### FIRST QUARTER TRADE SURPLUS UP 36% YEAR-ON-YEAR

-----

The merchandise trade balance was a \$731 million remains in surplus in the first quarter, up 36% over the first quarter of 1999. Exports increased 9.6% to \$8,607 million while imports rose 7.7% to \$7,876 million, the National Statistics Office reported. The slowdown in export growth (23.8% in Q1 1998, 15.2% in Q1 1999 and now down to 9.6%) is projected to continue, partly due to the continued suspension of direct flights between the Philippines and Taiwan, the country's third largest market in 1999. Aggravating this is an ongoing military conflict in Mindanao, which has isolated some cities and towns. Businessmen in General Santos City, where an estimated 25% of the world's tuna catch is landed and processed for export, have reported some slowdown in production.

Making up for the slowdown is a 122% surge in economic zone exports to \$7.4 billion for Jan-March 2000 from \$3.3 billion a year ago. Electronics and components dominated ecozone exports, according to latest report by the Philippine Economic Zone Authority (PEZA). It is too early to say if the 10.4% March import growth from the previous month indicates sustainable recovery in demand for inputs, given the weakening of the peso.

PHILIPPINE FOREIGN TRADE PERFORMANCE  
January - March 2000



(FOB value in Million US\$)

Jan 1999	2,581	2,398	183
Feb	2,569	2,255	315
Mar	2,702	2,652	50
Apr	2,346	2,598	(252)
May	2,747	2,533	214
Jun	2,857	2,671	187
Jul	2,851	2,791	60
Aug	3,212	2,661	551
Sept	3,693	2,548	1,145
Oct	3,458	2,613	845
Nov	3,073	2,351	722
Dec	2,944	2,653	291
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,988	2,742	247
Jan-Mar 1999	7,852	7,313	539
Jan-Mar 2000	8,607	7,876	731

Source: National Statistics Office